Local Government Association

LGA Executive
8 December 2011

Item 4

Autumn Statement update

Purpose of report

For discussion.

Summary

This paper provides a preliminary analysis of the impact on local government of the Chancellor's Autumn Statement.

Recommendation

Members are asked to note this report and provide a steer on action to be taken in response to the Autumn Statement.

Action

Director of Finance and Resources

Contact officer:	Stephen Jones
Position:	Director of Finance and Resources
Phone no:	020 7664 3171
E-mail:	stephen.jones@local.gov.uk

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Background

1. The Chancellor of the Exchequer reported to Parliament on the Autumn Statement on 29 November. The Statement contained important new announcements about public spending and revised forecasts prepared by the Office for Budget Responsibility on future levels of economic growth and tax receipts.

2. The LGA released statements both ahead of and on the day of the Autumn Statement, setting out our key messages. Our on the day briefing was made available to member authorities and Parliamentarians and is published on the www.local.gov.uk website. The Chairman commented:

   "In the current spending review period councils have had their funding cut by 28 per cent, against an average cut across Whitehall of 8.3 per cent. As the most trusted and efficient part of the public sector, councils have borne the brunt of the cuts in a disciplined manner balancing the needs of the economy against maintaining vital local services.

   "While the announcement of some extra capital investment in schools and local transport will be welcomed, the prospect of further reductions in funding for councils, running into hundreds of millions of pounds from 2013, risks adversely impacting those vital local services people rely on every day at a time when many communities are already feeling the strain."

3. The remainder of this report sets out more fully the analysis underlying this response and discussed the implications of the Chancellor's statement for member authorities.

Key points in the Autumn Statement

4. The Government's intention through the Autumn Statement measures is to take further action to protect the economy, build a stronger economy in the future and do so in a way that is fair. The fundamental changes as compared with the position set out in the 2010 Spending Review are:

   4.1 a switch of about £3.7 billion over the period to 2014-15 from current spending into capital spending; and
   4.2 further cuts in current spending in 2015-16 and 2016-17.

5. About half the current spending cuts needed to fund the additional capital spending come from changes to working and child tax credits. The remainder comes from adjusting the overseas aid budget in line with lower forecast GDP and from a saving taken from public sector pay restraint.

6. The rationale for the saving from public sector pay restraint is that, in taking the Spending Review 2010 decisions it appears that the Treasury assumed that public sector pay awards would increase at around 2% p.a. after the previously announced pay freeze periods ended. The Government has now stated its intention to set public sector pay awards at an average of 1% for each of the two years after the current pay freeze comes to an end (2013-14 and 2014-15 for most of central Government). The Government has said that 'Departmental budgets will be adjusted in line with this policy, with the exception of the health and schools budgets, where the money saved will be recycled'. It is our understanding that the CLG local government budget will be subject to this adjustment in 2013-14 and 2014-15, although we do not yet have any clear information about the amounts involved.

7. The additional capital spending funded from these savings includes the following areas of particular interest to local government:

   7.1 significant road and rail infrastructure improvements in various parts of the country, and £170 million extra for local transport projects;
   7.2 an extra £1 billion for the Regional Growth Fund;
   7.3 an extra £600 million to support local authority capital investment in schools, said to be enough to deliver an additional 40,000 school places; and
   7.4 a stated intention to allow local authorities more flexibility to support major infrastructure.

8. The Chancellor's announcement of his outline spending plans for 2015-16 and 2016-17 states that total Government expenditure will continue to fall by 0.9% p.a. in real terms in each of those years, which is the same rate as in Spending Review 2010. Within this, capital spending will grow in line with general inflation.

What this means for local government

9. The Government has not yet set out in detail what these changes mean for local government. Officers' assessment is that we are unlikely to see material overall change in the 2012-13 Formula Grant Settlement as a result. On the capital side, it appears that a significant part of the extra schools funding will be made available in 2012-13, but the new local transport and Regional Growth Fund money is significantly skewed towards 2013-14 and 2014-15.

10. For 2013-14 and 2014-15, though, it appears that the Government's intention is to reduce the current spending control totals already set for local government, in line with the newly announced pay policy. The Government is not seeking to change the way pay awards are determined in local government – that remains the responsibility of employers. It is, rather, removing funding on the assumption that events will prove the Treasury's original funding level to have been over-generous. Given that the 2010 Spending Review settlement cut local government funding so severely, and that our sector has borne the majority of public sector redundancies (with their associated costs), we are concerned that the additional cuts risk impacting front line services.

11. The implications of the Chancellor's announcement for 2015-16 and 2016-17 are, though, of even greater significance. A cut of 0.9% real in total Government spending might not sound very much but, once the impact of uprating of spending on pensions and benefits is taken into account, what is left to fund grants for departments' and local government's spending will fall in cash terms. At worst, this could translate, in the currency of the Local Government Resource Review, into higher and higher levels of the 'set-aside' that was highlighted as a significant issue in the LGA response to the recent consultation. Our position on this is completely different: we want access to the full real terms growth in business rates.

12. A further update on these matters will be provided orally at the meeting.

Recommendation

13. Members are recommended to note this report and provide a steer on action to be taken in response to the Autumn Statement.